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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 272 **December, 1982**

Business in Virginia November, 1982, Data

There are some good signs in the Virginia business news for November and they may be just good enough to warrent some hope. For example the dollar value of building permits rose 73.3 percent this November over that of a year ago. In October they had risen 27.4 percent and in September 40.3 percent. A trend seems to be developing. The important part of it all is that this is a leading economic indicator, as clearly the permit comes first and the construction put in place is later. This barometer is saying that some five or six months down the road the construction business in Virginia will be in good shape, for not only are these permits commercial ones but residential in addition. National figures too show a big upturn in housing and other permits and construction for the month of November.

Another good sign is that of new car registrations. They are up 13.6 percent over November of 1981. This is a startling increase—the greatest for the entire year to date. Only once did these registrations get into the black and that was June with a rise of 0.1 percent. Other months have been off as much as 31.3 percent. National figures too showed a very healthy increase in new car sales for November.

Studies of business cycles since World War II show that in every case housing and autos have led us into and out of the recessions. If this is the case this time around, then a continuing increase in these two indicators will go a long way to restore confidence for producers and consumers. We are still not out of the recession, though. There is too much unemployment, unused industrial capacity, business failures, etc. But it is just possible that there is a little light showing through the darkness.

A third economic delight in November was the retail sales indicator. It increased 10.5 percent this November over last year. Some of this may have been and likely was pre-Christmas sales. It is possible that some of the wind was taken out of December thereby. But this should not be knocked. There is still enough buying power among the consumers that if they are of a mind, December retail sales will come in stronger than that of last year.

But lest the reader be overcome by all of this euphoria we should examine the other side of the ledger. One of the best state and local indicators for total dollar volume of goods and services sold is that of bank debits to demand deposits. These are checking account transactions and give a total for all levels: retail, wholesale, producer, and raw materials. In November they were up only 13.7 percent. This is on the low side. This is better than October when they rose only 11.0 percent, but it is still below the norm of around an increase of 20 or 22 or 23 percent. As fundamental as this indicator is, one can only conclude that slowness continues in the Virginia economy and we are not out of the recessionary woods as yet.

No data on nonagricultural employment yet; water consumption up 1.4 percent; electricity up 3.3 percent; and postal receipts down 2.2 percent.

(Continued on the back page)

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change November, 1982 from November, 1981

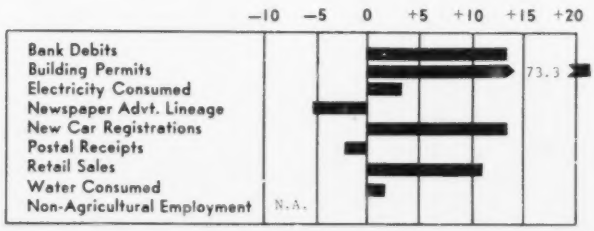
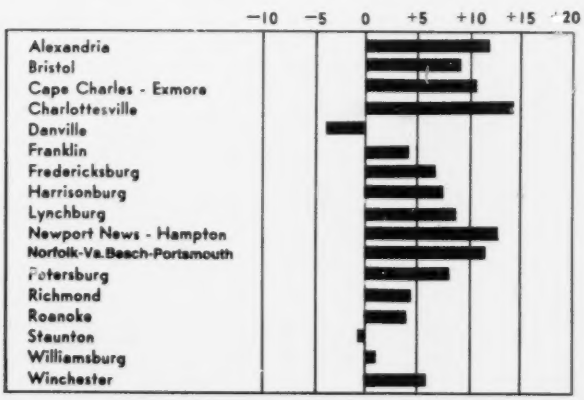


Chart II

City Indices

Percentage Change November, 1982 from November, 1981



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I November, 1982

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		237.8	201.7	101.6	111.6	86.1	N.A.	84.0	154.7	171.4
Alexandria	167.2	443.7	160.8	105.7	N.A.	95.8	128.9	96.5	155.6	N.A.
Bristol	122.2	198.1	109.4	88.6	80.3	74.6	N.A.	65.4	134.2	190.1
Cape Charles - Exmore	114.2	143.6	21.3	101.0	N.A.	91.1	N.A.	N.A.	103.6	152.6
Charlottesville	166.0	217.7	175.9	100.9	N.A.	103.6	N.A.	104.7	209.5	172.9
Danville	118.2	N.A.	41.8	98.6	95.9	72.4	N.A.	75.9	149.9	153.2
Franklin	119.1	N.A.	N.A.	N.A.	125.0	80.3	N.A.	97.8	123.8	158.9
Fredericksburg	154.4	139.7	90.6	N.A.	130.1	100.4	N.A.	58.2	208.0	182.7
Harrisonburg	148.9	177.6	214.2	N.A.	136.5	90.9	N.A.	110.5	155.4	209.5
Lynchburg	174.9	402.3	58.1	97.8	N.A.	71.1	N.A.	105.7	137.6	309.4
Newport News - Hampton	132.8	203.4	649.3	90.8	101.0	81.5	113.1	99.4	168.8	N.A.
Norfolk - Va. Beach - Portsmouth	116.7	108.3	150.6	110.3	113.2	88.1	114.3	68.8	149.2	N.A.
Petersburg	117.1	124.7	5.2	N.A.	75.4	63.7	N.A.	95.2	146.4	138.9
Richmond	133.0	266.1	N.A.	103.2	105.5	80.1	111.6	86.5	141.1	153.3
Roanoke	138.4	196.8	185.8	83.2	134.1	62.0	103.2	92.1	182.2	165.6
Staunton	116.4	106.7	143.4	N.A.	N.A.	65.3	N.A.	N.A.	125.2	150.6
Williamsburg	123.3	139.0	87.6	128.0	N.A.	93.2	N.A.	79.3	116.5	197.1
Winchester	142.6	294.3	52.3	104.3	164.0	85.8	N.A.	101.7	124.9	158.3

TABLE II November, 1982

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Oct. RETAIL SALES ‡
The State		13.7	73.3	3.3	-5.2	13.6	N.A.	1.4	10.5	-32.2
Alexandria	11.9	24.5	215.5	3.9	N.A.	22.0	2.2	21.6	7.0	12.4
Bristol	9.1	29.1	256.5	2.4	-5.6	3.7	N.A.	1.0	14.0	1.8
Cape Charles - Exmore	10.5	4.8	-81.9	13.6	N.A.	59.2	N.A.	N.A.	-4.8	-2.4
Charlottesville	14.3	21.8	153.4	-1.6	N.A.	40.0	N.A.	3.6	12.2	1.6
Danville	-3.8	N.A.	-6.4	2.3	-5.1	-6.3	N.A.	-3.7	-4.5	-0.4
Franklin	4.0	N.A.	N.A.	N.A.	-5.7	11.4	N.A.	2.8	5.1	13.1
Fredericksburg	6.4	23.1	-89.0	N.A.	-5.0	2.4	N.A.	-39.5	21.3	4.3
Harrisonburg	7.1	19.9	1153.9	N.A.	0.2	9.7	N.A.	-5.1	8.3	5.6
Lynchburg	8.4	27.0	-70.1	0.1	N.A.	12.7	N.A.	-5.4	8.1	-8.7
Newport News - Hampton	13.1	53.2	988.1	3.3	-14.0	23.2	2.9	5.8	14.6	7.4
Norfolk - Va. Beach - Portsmouth	11.3	22.1	16.7	7.9	-2.3	10.8	0.7	4.5	19.3	7.7
Petersburg	7.9	19.1	155.3	N.A.	-18.1	30.5	N.A.	-7.0	10.2	3.5
Richmond	4.8	8.6	17.4	1.1	-10.7	2.3	0.1	-4.6	15.5	5.6
Roanoke	4.1	8.9	72.6	-1.1	-0.6	1.4	-0.9	12.8	5.4	13.6
Staunton	-0.5	3.3	-42.9	N.A.	-6.5	-17.1	N.A.	N.A.	5.8	7.4
Williamsburg	0.9	7.0	270.3	4.3	N.A.	18.3	N.A.	-8.4	-5.0	3.1
Winchester	5.8	20.7	-83.1	-1.5	26.2	16.9	N.A.	-7.5	-2.7	6.2

TABLE III

Percentage Change January - November from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Jan.-Oct. RETAIL SALES
The State		20.8	6.9	1.9	-2.3	-13.6	N.A.	2.4	4.3	0.3
Alexandria	6.8	43.6	-45.9	4.4	N.A.	-12.9	1.8	4.2	4.3	6.3
Bristol	-0.3	10.3	14.1	-2.3	6.2	-22.9	N.A.	-10.8	7.8	5.6
Cape Charles - Exmore	-0.1	6.2	-55.9	2.3	N.A.	-12.5	N.A.	N.A.	1.2	-5.3
Charlottesville	5.6	12.3	42.8	3.8	N.A.	-7.3	N.A.	6.1	8.1	6.8
Danville	1.6	N.A.	1.1	-5.9	-3.3	-26.2	N.A.	-8.4	18.4	0.8
Franklin	-0.4	N.A.	N.A.	N.A.	-2.1	-7.2	N.A.	11.2	-1.5	-1.9
Fredericksburg	-1.3	16.7	-58.9	N.A.	-8.3	-9.7	N.A.	-19.1	3.8	2.2
Harrisonburg	-2.4	2.5	-57.2	N.A.	-0.5	-23.3	N.A.	1.9	0.8	5.8
Lynchburg	-1.3	18.8	-18.3	-1.0	N.A.	-20.2	N.A.	-11.0	1.4	-2.8
Newport News - Hampton	5.4	40.3	16.5	1.4	-3.1	-16.4	1.3	2.0	7.8	6.8
Norfolk - Va. Beach - Portsmouth	4.9	26.7	36.5	2.5	-2.9	-13.8	0.3	17.7	4.6	4.5
Petersburg	-3.4	-2.6	-59.9	N.A.	-8.4	-14.9	N.A.	-4.8	2.3	3.0
Richmond	1.1	17.6	-35.9	2.0	-5.4	-12.0	0.0	-3.0	3.5	3.3
Roanoke	2.2	13.9	0.9	-2.5	2.2	-10.0	-1.2	3.1	4.8	3.6
Staunton	-2.4	-7.8	9.2	N.A.	-1.0	-18.8	N.A.	N.A.	4.4	2.4
Williamsburg	-1.7	11.7	43.6	3.3	N.A.	-4.6	N.A.	-8.6	-4.6	-0.9
Winchester	5.3	52.2	-39.7	0.7	9.0	-15.6	N.A.	-2.9	-0.4	-1.1

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

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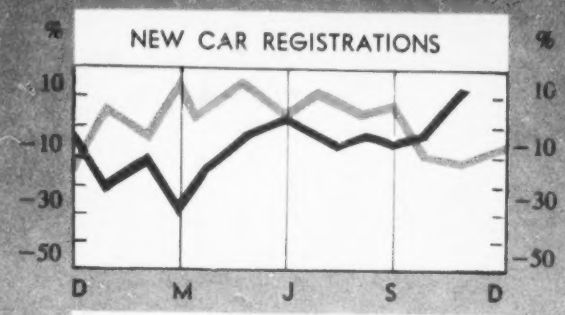

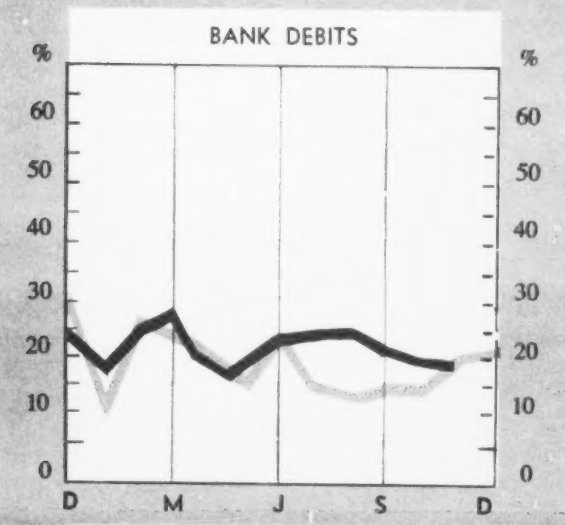

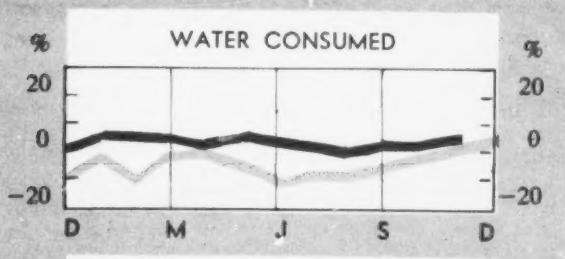

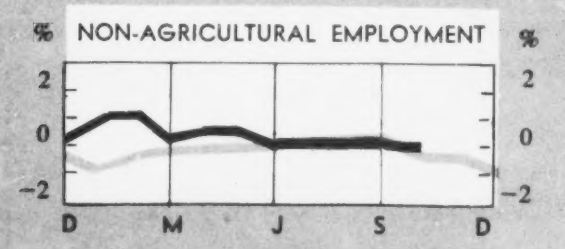

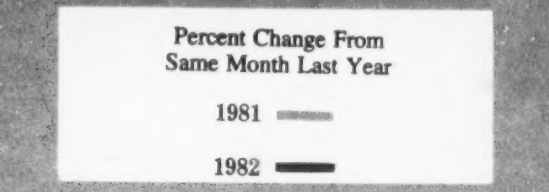

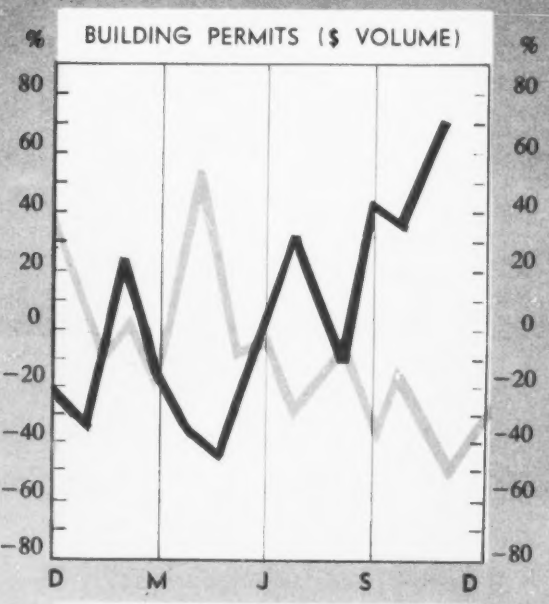

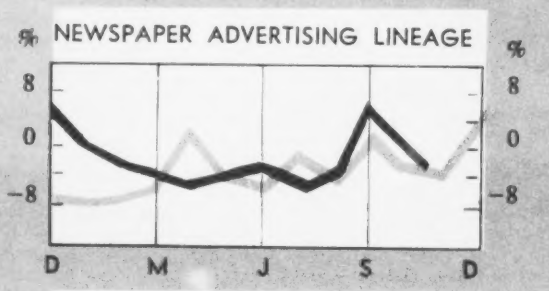

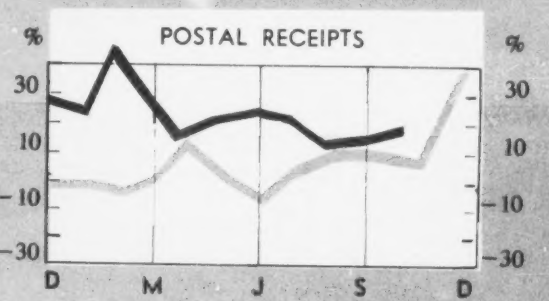

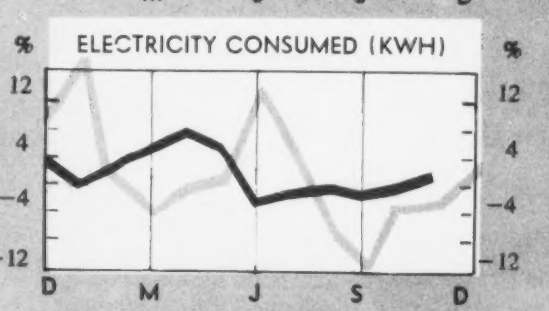

Why No Recovery? What Went Wrong?

In late spring and early summer of this year the economic indicators were pointing to a recovery from the recession which had started, so most analysts agreed, in July of 1981. The average recession since World War II had lasted about eleven to twelve months. This point had been reached and it was now time for the upturn. Furthermore, there were signs of confirmation. The composite index of twelve leading economic indicators began rising in April and when the third successive monthly increase occurred, there was joy in econoland, as this confirmed the recovery. Other nice things happened. In April early reports showed retail sales increasing by 1.4 percent and then 2.7 percent in June. Housing starts jumped 22.3 percent in May and the first report on new orders for durable goods showed a 1.4 percent increase. The income tax cut along with substantial social security benefits were eagerly awaited and in August the stock market soared.

Yet, in both July and August it became painfully clear that the recovery had aborted and that even though real GNP (gross national product adjusted for inflation) had turned from a negative growth rate in the first quarter of 1982 to a definitely positive upturn in the second, it was going nowhere in the third quarter. Perhaps the stock market investors knew something no one else did, but then the market is a leading economic indicator and they were about six months down the road.

Currently things were in a mess and if there had been an upturn in the spring then by summer the unemployment rate should have been turning down, since it lags about two months behind the upturn. It did not get better. It got worse and by September reached pre-World War II levels of tragedy.

What went wrong? What happened? It had all looked so good. Even new incorporations had turned up, which is almost a sure sign of economic spring and robins.

Although economic cycles go back at least to the seven lean years and the seven fat years that surrounded Joseph in Egypt, it has only been in this century that business cycles have been studied carefully and that government officials have thought they could control them. It is true that business cyles were noted in the 16th and 17th centuries in England, but as Edmund Whittaker has pointed out (*History of Economic Ideas*), "The paucity of statistical and other evidence makes it impossible to determine with accuracy the characteristics of those early periods of commercial stagnation." It is also true that there were some classical and neoclassical economists (e.g., Pigou) that wrote about cycles, but none so thoroughly as Wesley C. Mitchell (*The Business Cycle, The Problem and Its Setting*), who with the National Bureau of Economic Research (founded in 1920) was to devote his life to this study, which was inspired by Thorstein Veblen.

Even in the Harding Administration reductions in government spending were effected. Assistant Secretary Edward Clifford of the Treasury announced for fiscal 1923, "We expect to run the government on less than $3.5 billion, a reduction of $2 billion from the cost of government in 1921 and nearly $500 million" less than 1922. (*Forbes* 9/22/82.) Secretary of the Treasury Andrew Mellon was to engineer a most successful tax cut in the 1920s.

By the 1930s, however, mostly government spending was the order of the day. J. M. Keynes's ideas prevailed: control the business cycle via public investment (government spending) when private investment fails; move against the cycle with taxation (raise taxes in prosperity to repay the public debt; cut taxes in depressions to stimulate private spending). Fiscal policy was thus a two edged sword—spending and taxing.

The Kennedy-Johnson years witnessed a tax cut and a lot of "fine tuning" (fiscal and monetary actions) to adhere to the highway of prosperity. All of which had a measure of success until it ran into the Vietnam escalation with no taxation to pay for it.

President Nixon tried price controls with no success and President Ford pushed a "Win" policy which went nowhere against the recession of 1974-5. President Carter allowed high spending, got inflation and then invoked credit controls which plunged the country into the recession of 1980 just when he did not need it.

Not too long after the new administration took office the term "Reagonomics" was born. It called for monetary restraint to fight inflation, fiscal stimulus (Keynesian tax cuts), decreased nondefense spending, and increases in defense. Although spending cuts might not pay for defense, tax cuts would, since consumers would save more than they would spend, interest rates would thus fall, business would borrow to build new plants, and the economy would expand which would bring higher revenues. It did not work.

Trouble began in July, 1981. Because of the Federal Reserve there was not enough money to finance the economy. The consumer quit buying. Retail sales fell, inventories clogged, and production declined. The recession was on.

Even though the tax cuts of October, 1981, and July, 1982, were mostly saved and interest rates fell, there was no motivation to expand productive capacities, since business could not sell what was already being produced. Furthermore, what made Reagan economists think that capital spending would lead an economy? It never has. Sales must accelerate before investment follows (accelerator principle).

The flicker of a 1982 spring recovery died largely because of monetary restraint by the Fed from February through July and the decline in the velocity of money (rate of spending). Moreover, unemployment had reached a horrible level and consumers adopted a policy of "wait and see." Buyers had led the economy into the recession and were in no mood to lead it out. Since consumption accounts for nearly 65 percent of gross national product, consumers are the most potent elements in influencing economic behavior.

Where the forecasters went fundamentally wrong was in predicting consumer behavior. Economics has become a mathematical-social science and forecasts by using historic, quantitative data (econometrics). Veblen asked "Why Is Economics not an Evolutionary Science?" Perhaps a change is in order. "Man is not a lightening calculator of pleasure and pain." If economists would move closer to social psychology, they might forecast better. At the moment the Fed on the basis of the quanity theory of money is increasing the money supply generously. Will prosperity return? We shall see.

LET

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